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Tariff Issues Confronting the New Administration

by

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with the aid of the Reseach Staff of the Foreign Policy Association

THE announcement on March 22 that President Roosevelt will seek authority to negotiate executive agreements for reciprocal tariff reductions may be interpreted as the first step in a necessary readjustment of the tariff policy of the United States. The rise in prohibitive trade barriers throughout the world in the past two years—partially, at least, in retaliation against the American tariff—has brought home the menace and absurdity of protective measures when universally applied. Choked by innumerable restrictions and checked by ever-increasing tariff barriers, international trade has declined in value by three-fifths since 1929, reducing it nearly to the level of thirty years ago.[1] While a large share of this reduction may be accounted for by declining prices, the volume of trade has fallen by more than one-fourth during the past three years, and by the first half of 1932 had dropped to, or possibly below, the pre-war level.[2] Moreover, it has become evident that the increases made in the American customs rates in 1930[3] and again in 1932[4] have failed to protect this country from the full effect of the world depression. On the contrary, the losses of the United States have been proportionately greater than those of any other nation, with the possible exception of Germany.[5] American exports have declined 70 per cent since 1929, while the volume of industrial production has fallen 45 per cent.[6] In the third quarter of 1932, factory payrolls were only 37 per cent as large as during the corresponding period three years previously;[7] farm income in the past year was estimated at $5,240,000,000 as compared with $11,911,000,000 in 1929.[8] While the losses have not been evenly distributed among all sections of society, a rough measure of the cost of the general depression in terms of a reduction in living standards may be seen from the fact that the national income has declined from over 85 billion dollars in 1929 to approximately 40 billion in 1932,[9] although the cost of living was only reduced by one-fourth during the same period.[10]

United States Foreign Trade—1890-1932*

(In millions of dollars)

	Imports	*Exports*	*Export Surplus*
1890	789	858	69
1900	850	1,394	545
1905	1,118	1,519	401
1910	1,557	1,745	188
1915	1,674	2,769	1,094
1920	5,278	8,228	2,950
1925	4,227	4,910	683
1928	4,091	5,128	1,037
1929	4,399	5,241	842
1930	3,061	3,843	782
1931	2,091	2,424	334
1932	1,323	1,618	295

**Statistical Abstract of the United States, 1932* (Washington, Government Printing Office, 1932), p. 432, and *Monthly Summary of the Foreign Commerce of the United States*, December 1932.

1. Cf. *Review of World Trade, 1931 and 1932* (Geneva, League of Nations, 1932, first half), p. 14-15; also C. Day, *History of Commerce* (New York, Longmans, Green, 1914), p. 273.
2. Cf. *Review of World Trade, 1931 and 1932*, cited, p. 15-16.
3. For details regarding the Hawley-Smoot tariff of 1930, cf. L. B. Mann, "Foreign Reactions to the American Tariff Act," Foreign Policy Association, *Information Service*, Vol. VI, No. 15, October 1, 1930.
4. Duties were imposed on oil, coal, lumber and copper by the revenue act passed by Congress on May 31, 1932.
5. The index of general production for the United States (based on the 1925-1929 average) which was 88 in 1930, declined to 71 in 1931, and dropped to 52.3 in July 1932. All of these figures except the last were lower than for any other country. In July the American index was the same as that of Germany, although the German index has been slightly lower in certain months. (Cf. *World Economic Survey, 1931-32*, Geneva, League of Nations, 1932, p. 90-92 and 295; also *Monthly Bulletin of Statistics*, League of Nations, for more recent figures.) From 1929 to 1931 the decline in the American national income was 36.5 per cent, while the German national income dropped only 25 per cent. (Cf. *The Economist*, December 10, 1932, p. 1077.) The reduction in the foreign trade of the United States during the first six months of 1932 was 67.2 per cent from the corresponding period of 1929. No other nation had suffered a loss of more than 60 per cent. (Cf. *Review of World Trade, 1931 and 1932*, cited, p. 8, 31.)
6. Cf. *Federal Reserve Bulletin* (Washington, Government Printing Office, January 1933), p. 22.
7. *Ibid.*, p. 22.
8. Cf. Statement of the Department of Agriculture, *New York Times*, November 22, 1932; also *Statistical Abstract of the United States, 1932*, p. 601.
9. Cf. *Conference Board Bulletin* (New York, National Industrial Conference Board), February 20, 1932 and February 20, 1933.
10. Cf. Report of the Bureau of Labor Statistics, *New York Times*, January 19, 1933.

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ALTERNATIVES BEFORE THE NEW ADMINISTRATION

The present tariff policies having proved inadequate, it is clear that the new Administration will be driven to adopt one of two alternatives: substantial reduction in tariffs,[11] with or without reciprocity agreements; or further development of the traditional policy of protection to the point of establishing, as far as possible, a condition of national economic self-containment.[12] A strong case may be made for either alternative and each has been vigorously advocated by well-known economists. Attempts to find a compromise between these two, however, may lead to further disaster.

DEVELOPMENT OF AMERICAN TARIFF POLICY

The United States has followed a high tariff policy since the enactment of the first protective measure in 1789. During the first three-quarters of the century, however, the basic level was comparatively low, but at the time of the Civil War a series of very high emergency duties were imposed which, although at first regarded as temporary, were retained, increased and developed into a system of extreme protection which has never been fundamentally modified.[13] In view of the fact that the United States was a debtor nation until the outbreak of the World War, its commercial policy had comparatively little effect either on the international financial structure or on the volume of world trade. Although strenuously debated as an internal issue, the tariff was, strictly speaking, relatively unimportant as far as general prosperity was concerned.[14] The rapid economic development of the United States was not primarily the result of government policy, but was due to the natural advantages gained in developing a virgin continent at a time when the machine was first being pressed into man's service. The tariff did, however, largely determine the direction of this development.

The World War catapulted the United States, with unprecedented suddenness, from relative obscurity into a position of economic dominance.[15] This transformation occurred despite the fact that the financial and political leaders of the country were largely unprepared for the responsibilities thrust upon them. The nation's past experience and financial institutions, as well as its economic and political views, were those of a debtor rather than a creditor.[16] Under the circumstances it is not surprising that there was no immediate adjustment in national policy to meet new conditions. Instead, the traditional policy of protection was maintained and strengthened. The relatively moderate duties established by the Underwood Tariff Act of 1913 were sharply increased successively by the Emergency Tariff of 1921 and the Fordney-McCumber Act of 1922.[17] These rates, in turn, were further raised by the Hawley-Smoot tariff of 1930 which was enacted primarily to extend to agriculture the protection which had hitherto been given to industry, but which provided increased protection for many industrial as well as agricultural products.[18]

Average Rates of Duties Under Recent Tariff Acts*

(Values in millions of dollars)

	Per Cent Free	Per Cent Dutiable	Average Annual Imports	Average Annual Duties Collected	Equivalent *ad valorem* rates: Dutiable	Equivalent *ad valorem* rates: Free and Dutiable
Payne-Aldrich Law 1910-1913†	52.6	47.4	$1,621	$313	40.7	19.3
Underwood Law 1914-1920†	67.5	32.5	2,884	233	24.9	8.1
Emergency Tariff 1921-1922†	61.3	38.7	2,815	372**	34.0	13.2
Fordney-McCumber Law 1923-June 17, 1930	63.8	36.2	3,898	544	38.5	14.0
Hawley-Smoot Law						
June 18, 1930 to October 31, 1932	67.8	32.2	2,055	337	50.7	16.4
January 1 to October 31, 1932	67.2	32.8	1,127‡	212‡	57.5	18.8

*Compiled from the report of the United States Tariff Commission, Statistical Division, October 1932.

†The Payne-Aldrich Law became effective on August 6, 1909, the Underwood Law on October 4, 1913, the Emergency Tariff on May 28, 1921 and the Fordney-McCumber Law on September 22, 1922. Certain inaccuracies will appear in the above table due to the fact that fractions of years are disregarded prior to the Hawley-Smoot tariff, but the difference is in no case large enough to affect the averages materially. The years given in the above table are fiscal years from 1910 to 1918, and calendar years from 1919 to the present time.

**Of this amount, $273,000,000 was collected on the agricultural commodities, including woolen and cotton goods, specified in the Emergency Tariff between May 28, 1921 and September 21, 1922.

‡Nine months only

11. The appointment of Senator Cordell Hull, a pronounced advocate of tariff reduction, as Secretary of State may be taken as an indication that the Administration has definitely chosen the first course.

12. Cf. Address of President Hoover in New York, February 13, 1933, *New York Times*, February 14, 1933.

13. For details, cf. F. W. Taussig, *The Tariff History of the United States* (New York, Putnam, 1923, Seventh Edition).

14. Cf. *ibid.*, p. 409-11; also R. S. Tucker, "Tariff Revisions and Business Recovery," *The Annalist*, December 9, 1932.

15. For further discussion of this and subsequent points, cf. M. S. Stewart, "American Commercial Policy and the World Crisis," *Foreign Policy Reports*, Vol. VIII, No. 6, May 25, 1932.

16. Cf. *Report on Agricultural Relief*, House of Representatives, 72nd Congress, 2nd Session, No. 1816, p. 3.

17. For details, cf. Taussig, *The Tariff History of the United States*, cited, Chap. IX and X.

18. Cf. L. W. Jones, "Tariff and American Foreign Trade," Foreign Policy Association, *Information Service*, Vol. V, No. 7, June 12, 1929; and L. B. Mann, "Foreign Reactions to the American Tariff Act," *ibid.*, Vol. VI, No. 15, October 1, 1930.

AMERICAN TARIFF AND POST-WAR UNSETTLEMENT

While it is impossible to isolate economic factors with complete assurance, many authorities hold that the failure of the United States to adjust itself to its new position as a creditor has greatly aggravated the instability of the post-war economic situation.[19] If a creditor nation is to receive a return on its investments in the form of interest and sinking fund payments, it is obviously necessary for that nation to maintain an import surplus of goods and services.[20] This necessity may be temporarily postponed, as it was by the United States, by pyramiding foreign lending or by the importation of gold but it cannot be permanently avoided.[21] Through erecting and maintaining a number of barriers for the purpose of checking payment in either goods or services, the United States has prevented the establishment of an equilibrium in the field of international payments. The breakdown came in 1929 with the sharp curtailment of foreign lending during the abnormal boom on the American securities market.[22] Since it was no longer possible for many of the debtors to obtain fresh loans to cover their obligations, internal credit was contracted, individual debtors sought to secure funds to meet their obligations by throwing increased amounts of their products on the markets of the world at reduced prices, and purchases were drastically curtailed. Once the vicious circle of deflation had been set up, the volume of new loans was still further contracted,[23] and practically every nation attempted to defend itself against falling prices by adopting such defensive measures as increased tariffs, import quotas and foreign currency restrictions.[24] American producers of such commodities as wheat, cotton, copper and silver, which are dependent on the world markets, suffered immediately from the world decline in prices, and the decreased purchasing power of both foreign and domestic agricultural and raw-material producers led to the gradual withering away of all economic activity.

IS FOREIGN TRADE NECESSARY?

Having been slow to recognize that the roots of the present economic depression extended beyond the boundaries of the United States,[25] many Americans reacted to the discovery of the international implications of the crisis by demanding the development of a self-contained national economy. It has been suggested in many circles that, since the United States is probably more self-sufficient than any other nation, it might possibly free itself from world influences and "make a large measure of independent recovery."[26] Some economists have taken the position that a serious mistake was made in developing a dependence upon foreign trade during the last decade, and urge that durable adjustments be made which will restore the old reliance on home markets.[27] It is claimed that the task of organizing "the world on the basis of constantly expanding interdependence is beyond human intelligence."[28] The differences in the standard of living in various parts of the world are too great to permit the establishment of economic stability through dependence on the interplay of the world market. A balance of the economic forces can only be obtained, therefore, by insulating each country as far as possible from external influences and turning the nation's efforts primarily to the development of the home market.[29]

In sharp opposition to this view, a number of authorities maintain that there can be no solution for the problems facing the United States at present except through more effective international cooperation.[30] These authorities view the breakdown of the international commercial and financial structure not so much as a defeat forcing the world to retire to a more primitive basis of economic organization, but a challenge to organize world economy on a more stable basis. While they do not deny that, as compared with other nations, the United States is remarkably self-contained, both as regards natural resources and its balanced industrial structure, the opponents of an isolationist policy maintain that through its huge foreign investments this country is irrevocably linked with the outside world.[31] Moreover, although less than 10 per cent of the total production of the United States is sold abroad,[32] many economic groups within the country are

19. Cf. *Review of World Trade, 1931 and 1932*, cited, p. 9-13; also *Committee on Finance and Industry (Macmillan Committee) Report* (London, H. M. Stationery Office, 1931, Cmd. 3897), p. 83-84.

20. Cf. Stewart, "American Commercial Policy and the World Crisis," cited, p. 70-72.

21. Cf. *World Economic Survey, 1931-32*, cited, p. 44-45.

22. *Ibid.*, p. 45-46, and *Committee on Finance and Industry Report*, cited, p. 78, 79-82.

23. Cf. M. Winkler, "American Foreign Investments in 1931," *Foreign Policy Reports*, Vol. VII, No. 24, February 3, 1932, p. 428.

24. Cf. Stewart, "American Commercial Policy and the World Crisis," cited, p. 68 and 73.

25. Cf. W. Lippmann and W. O. Scroggs, *The United States in World Affairs, 1931* (New York, Harpers, 1932), p. 1-14.

26. Cf. speech of President Hoover before the American Bankers Association at Cleveland, *New York Times*, October 3, 1930; also W. E. Woodward, *Money for Tomorrow* (New York, Liveright, 1932), p. 223-32.

27. Cf. W. B. Donham, *Business Looks at the Unforeseen* (New York, McGraw Hill, 1932), p. 102-04.

28. *Ibid.*

29. Cf. S. Crowther, "How Self-Contained is America?" *Saturday Evening Post*, November 7, 1931.

30. Cf. Ernest Minor Patterson, *America: World Leader or World Led* (New York, Century, 1932), Chapter X; also Sir Arthur Salter, *Recovery, The Second Effort* (New York, Century, 1932), Chap. IV.

31. Cf. Patterson, *America: World Leader or World Led*, cited, p. 129-39.

32. Cf. *Commerce Yearbook, 1932* (Washington, Government Printing Office, 1932), Vol. I, p. 92-93.

largely dependent upon foreign trade. Half of the cotton, more than a third of the tobacco, approximately 30 per cent of the kerosene, and nearly one-fifth of the wheat produced in the United States are normally marketed abroad.[33] While the proportion of manufactured articles is somewhat less than that of agricultural products and raw materials, certain industries are largely dependent upon exports. The following table indicates the proportion of the total production of certain articles exported in 1930.

Ratio of Exports to Production of Selected Products, 1930*

Item	*Unit*	*Production 1930*	*Exports 1930*	*Per Cent Exported 1930*	*Per Cent Exported 1914*
A. Farm Products and Foodstuffs					
Cotton	1,000 bales	16,066	7,176	44.7	62.6
Lard	million lbs.	2,344	674	28.8	28.1
Salmon, canned	1,000 lbs.	292,147	27,288	9.3	27.9
Sardines	1,000 lbs.	231,825†	123,920†	53.5†	......
Rye	million bu.	42	3	7.1	5.5
Tobacco, leaf	million lbs.	1,525	600	39.3	47.2
Wheat	million bu.	809	153	18.9	19.1
B. Raw Materials and Semi-Manufactures					
Copper	1,000 tons	1,115	379	34.0	54.8
Gasoline	1,000 bbls.	436,217	63,197	14.5	17.6
Kerosene	1,000 bbls.	49,208	16,689	33.9	52.2
Lubricating Oil	1,000 bbls.	34,201	9,749	28.5	37.1
Lumber	million bd. ft.	36,886	3,078	8.3	5.6
Rosin	1,000 bbls.	1,976	1,157	58.6	62.8
Turpentine	1,000 gals.	31,321	15,722	50.2	57.6
C. Machinery and Finished Manufactures					
Agricultural Machinery	$1,000	506,214	115,809	22.9	......
Automobiles	thousands	3,355	238	7.1	4.5
Cash Registers	$1,000	106,217†	24,725	23.3†	14.3
Locomotives	units	995†	207†	20.8†	......
Motorcycles	thousands	32†	16†	50.0†	10.5
Rubber boots and shoes	1,000 pairs	100,765†	12,372†	12.3†	3.2
Typewriters	$1,000	55,057†	22,844†	41.5†	36.9
	Total Manufactures (millions of dollars)	45,400—47,100†	3,745†	8.0—8.2†	9.3—10.0

*Data taken from the *Commerce Yearbook, 1931* (Washington, Government Printing Office), Vol. I, p. 89, 90, 92; and *Summary of United States Trade with World, 1931*, Trade Information Bulletin, No. 791, U. S. Department of Commerce, p. 13.

†Data are for 1929.

Although adequate statistical measurement has never been made of the importance of foreign trade in the national economy, the Annual Report of the Secretary of Commerce for 1929 pointed out that "to cut off our export trade would involve direct loss of jobs to two or three millions of our workers and to cut off our import trade would likewise throw great numbers out of employment. Moreover, the attendant shock to general business, should foreign trade cease, would be even more grave."[34] Even in 1932, it was estimated that there were still 2,000,000 workers directly engaged in producing goods for export, and that 1,250,000 additional persons were utilized in activities supplying the needs of those so employed.[35] No estimate has included the employment afforded those engaged in transporting and storing export and import commodities or in shipbuilding and allied trades. If foreign trade should be further curtailed, a readjustment could eventually be made which would enable industries manufacturing for the home market to assimilate many of the workers cited above, but a heavy price would have to be paid during the transition period and many individuals would be unable to fit themselves for new employment. While certain groups would probably benefit by the curtailment of foreign trade, the burden of proof would seem to rest on those who would advocate a move involving such a drastic economic dislocation.

In the final analysis, the case for foreign trade rests on the principle of national specialization—that it is better for countries to produce the goods for which they are best adapted and to exchange such goods with each other, than for each nation to produce everything for its own needs. This principle is reinforced by the fact that there are many essential commodities which either are not produced in the United States or produced

33. *Ibid.*, p. 95.

34. *The Seventeenth Annual Report of the Secretary of Commerce for the fiscal year ending June 30, 1929* (Washington, Government Printing Office), p. xxii. In the previous annual report (p. 94), it was estimated that 1,250,000 farm workers would be directly affected and approximately 1,000,000 industrial workers, in addition to "hundreds of thousands," indirectly affected.

35. Cf. Statement of Secretary Chapin, *New York Times*, January 19, 1933.

in quantities which are insufficient for domestic consumption. All of the rubber, silk, tea, coffee, and cocoa used in this country must be imported, together with half of the sugar,[36] three-fourths of the furs and skins, and more than half the newsprint.[37] While many of these products might be replaced by substitutes, such a process would be extremely costly and in some cases very unsatisfactory. It will be seen, therefore, that although self-containment is within the realm of theoretical possibility, the abandonment of foreign trade would involve tremendous sacrifices and a lowering of the American standard of living.[38]

If it is assumed, then, that foreign trade is desirable, it is clear that there must be some reduction in existing trade barriers. The immediate issue is not that of free trade versus protection. The question is rather what degree of protection is necessary or feasible in the light of this country's new position as a creditor and the requirements of its export interests.[39]

PRESENT-DAY TARIFF ISSUES

In this connection it is important to recognize that the power of tariff-making has much wider ramifications than are ordinarily recognized. No matter what decisions are reached by the tariff-making body, certain industries are bound to be favored and others retarded. Consequently, the drawing-up of a scientific tariff presupposes a definite policy in regard to national economic development. Tariffs are, potentially at least, the first step toward national economic planning, although they are the negation of such planning on an international scale.[40] This does not mean that tariffs have ever been consciously used in this manner in the United States or elsewhere, for tariffs have been rarely scientific. Nevertheless, all tariffs—good or bad—introduce an element of interference with normal economic adjustments and as such must be placed in direct opposition to the traditional theories of *laissez-faire*. Some authorities would extend this principle and through the use of quotas, tariff rates, and subsidies develop a comprehensive, integrated plan for the most effective use of our national resources.

BASIS OF AMERICAN TARIFF POLICY

In lieu of such a plan, it is extremely difficult to find a satisfactory formula on which to base the tariff policy of the United States. Perhaps the most important attempt in this direction was the incorporation in the Republican platform of 1908 of the declaration that "the true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries." This principle was accepted as the basis of the Payne-Aldrich Tariff Act of 1909, and is still in force today. Although on the surface this doctrine seems moderate and undiscriminatory, it has met with severe criticism. Exact measurements of differing costs between two nations is clearly impossible since these factors vary widely between different producers, both in this country and abroad. Other considerations, such as the availability of markets and differences in quality, serve to invalidate an arbitrary cost index when applied to specific cases. If carried out consistently, moreover, it is plain that the principle would lead to prohibition and stoppage of all foreign trade. Almost anything could be made within the boundaries of the United States, if the producer were assured of sufficient protection to cover his costs of production "together with reasonable profits."[41] To a somewhat lesser degree, the same objections might be brought against the principle of a "competitive tariff," which was the basis of the Underwood Act of 1913.[42] This does not mean that comparative costs can be neglected altogether in the determination of tariff rates. Obviously the whole doctrine of protection rests on some such principle. Experts in this field contend, however, that elaborate cost surveys are unnecessary and immaterial in view of the fact that the competitive advantage of foreign industries can be readily and satisfactorily estimated by computing the changes in the ratio between the imports of a given article and the total domestic production of that article. If the ratio increases, it is clear that the tariff is becoming less effective. This method has the additional advantage of greater sensitivity to such factors as depreciated exchange and variable costs of production which cannot be accurately estimated by any other method. Moreover, it is obvious that the retention of the

36. In recent years there has been a sharp decline in the import of Cuban sugar, corresponding to a large increase in the importation from outlying American possessions.

37. In addition to the above items, the following commodities are obtained entirely from foreign sources: nickel, iodine, radium, ivory, cod liver oil, hennequin, sisal, jute, manila, antimony, cobalt, bananas, and cork. Moreover, two-thirds of the tin, 95 per cent of the vanadium, two-thirds of the platinum, and a large proportion of the quinine and manganese must be obtained outside the United States. For details, cf. *Comparison of Imports and Consumption, 1927* (United States Tariff Commission, Washington, 1930), and War Policies Commission, *Hearing before the Commission Appointed under the Authority of Public Resolution, No. 98*, H. J. Res. 251, Part 2, p. 469.

38. Cf. speeches of Herbert Hoover at Newark, N. J., and Boston, Mass., September 17 and October 15, 1928; also *Draft Annotated Agenda*, Monetary and Economic Conference, League of Nations, C.48.M.18.1933.II., p. 8.

39. Cf. Benjamin M. Anderson, "The Business and Financial Situation—Retrospect and Outlook, With Special Reference to Prospective Tariff Reduction," *The Chase Economic Bulletin*, Vol. XII, No. 4, November 17, 1932, p. 16-17.

40. Cf. G. D. H. Cole, *A Guide Through World Chaos* (New York, Knopf, 1932), p. 40-41.

41. Cf. Taussig, *Tariff History of the United States*, cited, p. 363; also Taussig, *Free Trade, the Tariff and Reciprocity* (New York, Macmillan, 1920), p. 134-48.

42. *Ibid.*, p. 418-19.

doctrine of equalizing the costs of production is incompatible with the negotiation of reciprocal agreements on the basis of mutual trade concessions. Some new principle based on the desirability of maintaining international trade appears to be necessary, which would make possible the payment of the international obligations owed the United States.

TARIFF AND DEPRECIATED CURRENCY

The operation of the cost of production principle has been particularly hampered by fluctuation and depreciation of currencies of the thirty-four countries[43] which have officially suspended the gold standard. Protectionists have pointed out that the lowering of the exchange value of these currencies enables the products of the countries involved to be imported into the United States in increasing amounts despite the height of the American tariff. In support of this view, the Commissioner of Customs exhibited before the Finance Committee of the Senate more than 300 articles which had been imported at prices below the cost of production in the United States.[44] On October 24, 1932 President Hoover requested the Tariff Commission to make a special investigation into the duties assessed on sixteen articles which were said to be affected by depreciated exchange.[45] Three months later he lent his support to a move on the part of the Republicans in Congress for increased tariffs on countries with a depreciated currency.[46]

The investigations of the Tariff Commission, however, appear to indicate that the effect of depreciated currencies on American imports was not nearly as great as the theoretical advantage would have indicated. Investigation showed that imports from six leading European countries which were off the gold standard between October 1931 and February 1932 declined 28 per cent from the corresponding period of the previous year, while imports from six leading European countries on the gold standard dropped only 23 per cent. Thus the decline in the value of imports from the countries off the gold standard was actually greater than in the case of the nations clinging to gold. Whether it was by coincidence or not, the same trend was observable in an even more marked extent for non-European countries.[47] Protectionists, on the other hand, claim that this preliminary investigation did not cover an adequate period, and have submitted a list of articles imported from countries possessing a depreciated currency in which the amount thrown on the American market increased substantially during the first eight months of 1932.[48] Even many advocates of tariff reduction are inclined to concede the necessity for special protection against products from countries possessing a depreciated exchange because of the desirability of according equal opportunity to all importers. No satisfactory formula for securing this objective has yet been advanced, however, since computation of the relative advantage gained, if any, through currency depreciation has been found to be extremely difficult. While the immediate advantage is roughly equivalent to the ratio of depreciation, this margin rapidly disappears. Cost of production, especially where raw materials must be imported from abroad, tends to rise gradually until after a period of time the initial advantage is wholly lost.[49] The speed with which this adjustment takes place must necessarily vary with different industries. Consequently, provision for an automatic increase in duties proportionate to exchange depreciation would appear to work an injustice. A flexible tariff, adjusted by an administrative agency on the basis of changes in the relationship between imports and domestic production, might prove more satisfactory.[50]

THE TARIFF COMMISSION

The necessity and demand for an impartial agency for obtaining reliable information upon which to base the application of tariff policy led to the establishment of the Tariff Commission in 1916. This body is composed of six commissioners, not more than three of whom were to be members of one political party. While under the original act the Commission had no power to determine policy or to fix specific rates, it was authorized "to investigate the administra-

43. For the list of countries as compiled by the Department of Commerce, cf. *New York Times*, December 20, 1932. Since the date of compilation, South Africa has also suspended gold payments (*New York Times*, December 28, 1932).

44. Among the articles listed was a grass rug imported from Japan at a total cost of 66 cents which, according to the Commissioner, cost $6 to make in the United States. Christmas tree lamps from Japan cost 73 cents a hundred, while the American cost of production was stated to be $2.35. Most of the articles listed were from Japan, but some were from Germany and Czechoslovakia, countries which have not abandoned the gold standard, and a few were from England. *New York Times*, October 15, 1932.

45. *Ibid.*, October 25, 1932.

46. *Ibid.*, January 25, 1933. Attempts by the Republicans in the House to bring the Crowther bill before the House was defeated on February 13 by a vote of 212 to 174 (*ibid.*, February 14, 1933). For the purpose of counteracting the influence of depreciated exchange, President Hoover, on the recommendation of the Tariff Commission, announced that after March 3, 1933 the duty on rubber footwear would be assessed against the American selling price instead of the foreign value (*ibid.*, February 2, 1933).

47. *Depreciated Exchange*, Washington, U. S. Tariff Commission, Report No. 44, Second Series, 1932, p. 1-2; cf. also summary in *New York Times*, December 7, 1932; and W. O. Scroggs, "Depreciated Currencies and World Trade," *Foreign Affairs*, April 1933.

48. For list, cf. *New York Times*, January 26, 1933.

49. The temporary advantage gained through currency depreciation is due largely to the fact that wages and other internal costs tend to adjust rather slowly to the change, while a certain absolute gain is made with respect to the reduction of the weight of internal debt, which is fixed in terms of the depreciated currency. For detailed discussion of the effect of depreciated currency upon foreign trade, cf. Taussig, *International Trade* (New York, Macmillan, 1927), Chap. 26, p. 337-57.

50. Cf. p. 21.

tion and fiscal and industrial effects of the customs laws of this country now in force . . . together with the tariff relations between the United States and foreign countries."[51]

The powers of the Tariff Commission were extended by the so-called "flexible provision" of the Fordney-McCumber Act of 1922, under which it was charged with the duty of advising the President regarding the changing of classifications and the increasing or decreasing duties, by amounts not exceeding 50 per cent, where necessary to equalize differences in foreign and domestic costs of production. The organization and functions of the Commission were altered again by the Hawley-Smoot Act of 1930, when the Commission itself was authorized to specify such changes in rates as it deemed necessary after investigation, subject to the limits designated by Congress, however, and to the approval of the President.[52] Investigations may be made upon the request of Congress, or the President, or may be initiated by the Commission itself.[53]

Considerable difference of opinion exists regarding the value of the Tariff Commission's activities since its organization. Between 1916 and 1922 a number of comprehensive studies were made of American industries, the extent of domestic production of articles affected by the tariff, and the conditions of competition between domestic and foreign products. The reports presented all the pertinent facts regarding the industries covered, but the scope of the Commission's activities as prescribed by law did not permit it to interpret its findings or to suggest definite rates.[54] Since 1922 the work of the Commission has been much more restricted, as the major portion of its time has been taken up in the extensive investigations required to determine the relative cost of production of specific articles in the United States as compared with foreign countries. Since this information is frequently very difficult to secure and to verify, and is of dubious value after it has been obtained, many critics believe that the Tariff Commission has not been given a fair trial.[55]

SUGGESTED TARIFF REFORMS

In many respects the problem of tariff reform is among the most complex and controversial issues facing the world at the present time. Yet, difficult as the problem is, there is almost complete agreement among economists that reduction is imperative. The question is largely one of the proper strategy to be adopted in the face of powerful vested interests which are seeking the retention and even the increase of duties on specific articles. Many observers believe that general revision by Congress should be avoided since it would probably lead to a consolidation of these interests and, as a result of vote trading, to an increase in tariff rates. While the determination of tariff policy legally and properly belongs to Congress, many of the advocates of tariff reform believe that the fixing of specific rates should be an administrative rather than a legislative function.[56] Whether this would diminish the influence of vested interests on tariff-making is wholly problematical. In view of the fact that the very existence of tariffs involves the granting of special privileges to selected economic groups, it would be Utopian to hope that a change in machinery would completely eliminate pressure from such groups. There is reason to believe, however, that administrative organs would function more efficiently than Congress in the actual process of rate-determining, and that outside influence might be held to a minimum.

Assuming that the new Administration is committed to tariff reduction,[56a] four primary methods of approach have been suggested.

1. Unilateral reduction of the American tariff by a percentage to be determined by Congress.
2. General review of the entire tariff schedule by an impartial non-partisan body with a view to further reductions where practicable.
3. Negotiation of bilateral reciprocal agreements, with provision for extending the reductions granted by means of the unconditional most-favored-nation clause.
4. Negotiation of an international agreement at the World Economic Conference for the cessation of tariff increases and for an additional horizontal reduction in duties.

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51. Tariff Act of September 8, 1916, Sections 702 and 704 (39 Stat. L. 756,795).

52. For details, cf. Mann, "Foreign Reactions to the American Tariff Act," cited, p. 266.

53. Under the provisions of this law, *forty-three reports* dealing with 80 items were sent to the President prior to June 30, 1932. As the result of the Commission's recommendation, increased rates were imposed on 13 commodities, decreases were effected on 19, and no changes were made on the remaining 48. Preliminary investigations made on 59 other projects were dismissed because there did not appear to be sufficient reason for completing them. "Work of the Tariff Commission Since its Reorganization in 1930," U. S. Tariff Commission (Washington, Government Printing Office, 1932).

54. T. W. Page, *Making the Tariff in the United States* (New York, McGraw-Hill, 1924), p. 39.

55. Thomas Walker Page, formerly chairman of the Tariff Commission, declares that "Congress should repeal the existing law which directs the Tariff Commission to ascertain comparative costs of production because the provision is opposed to the public welfare, cannot be administered, and diverts the commission's energy." *Ibid.*, p. 241.

56. Several leading authorities dissent from this view, however. Mr. Thomas Walker Page, for example, argues that such a delegation of powers by Congress would be unconstitutional and is unthinkable as a practical solution. Mr. P. G. Wright expresses the fear that if the Tariff Commission were entrusted with the power of rate-making, it would become the creature of the great protected interests even more than Congress has been in the past. The U. S. Chamber of Commerce, Senator Costigan and others, however, favor placing the rate-making power in the hands of some such body as the Tariff Commission. Cf. Page, *Making The Tariff in the United States*, cited, p. 42, 46-7, 51; P. G. Wright, *Tariff-Making by Commission* (Washington, The Rawleigh Tariff Bureau, 1930), p. 51; I. G. Swisher, *An Introduction to the Study of the Tariff* (Washington, National League of Women Voters, 2nd edition, 1931), p. 106-8; and Testimony of Edward F. Costigan, Investigation of the Tariff Commission, *Hearings*, 1926, p. 400.

56a. Cf. F. D. Roosevelt, *Looking Forward* (New York, John Day, 1933), p. 177-90.

UNILATERAL TARIFF REDUCTION

Because of its incongruous position as a creditor nation possessing one of the highest tariff walls in the world, many observers feel that the United States must take the lead in tariff reduction. This view is based on the dual assumption that international negotiations are likely to be fruitless unless aggressive leadership is taken by one of the major powers, and that the United States itself has more to gain than to lose by such action.[57] If the analysis of the effect of this country's anachronistic commercial policy as presented above is correct,[58] it is clear that a uniform reduction in world tariffs will not touch the fundamental problem, for the United States must increase its imports more rapidly than its exports if international financial equilibrium is to be restored.[59] It has been urged, therefore, that if the United States Congress would vote a horizontal reduction of 10 per cent in all existing tariff rates, specific and *ad valorem* alike, as a gesture of good-will, the chances of success in the subsequent negotiation of reciprocal agreements and at the World Economic Conference would be immeasurably enhanced.[60] This view is, of course, in direct opposition to the widely held belief that increased tariff rates may be used as a bargaining instrument for forcing other nations to reduce their trade barriers.

REVIEW BY AN IMPARTIAL BOARD

Many experts feel that the horizontal reduction suggested above, which might be relatively small, should be merely the forerunner of a general review of the entire tariff schedule by a competent non-partisan body for the purpose of effecting further reduction wherever its investigation seems to justify such action. It is generally conceded that the present tariff law, like its predecessors, is badly framed from a technical point of view. Many tariffs, particularly on agricultural products, are virtually ineffective.[61] This is true of most commodities of which the United States is a net exporter, and also of products, such as eggs and corn, which are not readily imported. There are tariffs on commodities of which there is little or no domestic production.[62] Some duties are so high as to be prohibitive,[63] while others are so inadequately graduated as to be prohibitive on the lower grades of a commodity but nearly ineffective on higher grades. Many specific duties which were moderate at the time of application have become extremely high due to the drastic decline of prices since the imposition of the rates. Moreover, many other rates are entirely without a definitive basis, not being in harmony either with each other or with a unified tariff policy. Thorough revision would doubtless reveal many duties which could be lowered or omitted without any marked effect upon American producers, and even with general reduction it might be necessary to raise certain tariffs in order to bring them in line with the basic level.

While there are wide differences of opinion regarding the exact machinery which should be set up for making such a tariff review, certain principles are generally accepted. Congress should be responsible for an exact formulation of policy, defining the principles on which rates may be adjusted. It might also retain the right to veto any specific change within a given period, with provision for the rates going into effect automatically unless adverse action is taken. Some experts feel that even the right of veto should be surrendered by Congress, and would entrust this responsibility to the President. Whether the rates themselves should be fixed by a reconstructed Tariff Commission or by some other administrative organ of the government is a relatively minor detail. The success or failure of such a plan depends, in the last analysis, on the experience, ability, and integrity of the men chosen for the task.[63a]

RECIPROCAL AGREEMENTS

In the recent campaign, the Democratic party placed special emphasis upon tariff reduction by means of reciprocal agreements to be concluded with all nations desiring an improvement in their trade relations with the United States. The Democratic platform for 1932 dealt with the tariff as follows:

> "We advocate a competitive tariff for revenue, with a fact-finding tariff commission free from executive interference, reciprocal tariff agreements with other nations, and an international economic conference designed to restore international trade and facilitate exchange."

57. Cf. B. M. Anderson, *Chase Economic Bulletin*, November 17, 1932, p. 11-17.
58. Cf. p. 15-16; also Stewart, "American Commercial Policy and the World Crisis," cited.
59. Cf. Suggested agenda for the World Monetary and Economic Conference by a special committee of the Council of the International Chamber of Commerce, *New York Times*, February 8, 1933.
60. Cf. speech of Prof. P. W. Bidwell before the American Economic Association, *New York Times*, December 31, 1932.
61. For detailed discussion of the effectiveness of agricultural tariffs, cf. Hibbard, Commons, and Perlman, *Agricultural Tariffs* (Freeport, Illinois, Rawleigh, 1929).
62. These include tariffs on such commodities as olive oil, of which less than one per cent was domestically produced, cocoanut oil, soya bean oil, manganese, and mats of cocoa fibre or rattan. This issue has also been raised in connection with the present high duty on sugar since almost half of the sugar consumed in the United States has been imported from Cuba. Cf. P. G. Wright, *Sugar in Relation to the Tariff* (New York, McGraw-Hill, 1924); cf. also R. L. Buell, "Sugar and the Tariff," Foreign Policy Association, *Information Service*, Vol. V, No. 6, May 29, 1929.
63. The Tariff Commission lists more than 250 dutiable articles under H. R. 2667 as passed by the House of Representatives, on which the total imports into the United States in 1927 were less than one per cent of the domestic production. In at least a dozen cases the duty proved entirely prohibitive. *Comparison of Imports and Consumption*, U. S. Commission, cited. More recent information has been requested under the Costigan resolution as passed by the Senate on January 28, 1933.
63a. Cf., however, p. 20.

Although the negotiation of reciprocal agreements would not constitute a new step in American tariff policy,[64] previous experience with such measures has not been entirely reassuring.[65] One of the difficulties would seem to be in the failure of this country to follow a consistent and continuous policy in its negotiations. The practice of bargaining with individual countries has resulted in special arrangements based on immediate considerations and has made the adoption of a general policy extremely difficult.[66] Although it has been the purpose of the United States to offer equality of treatment in return for similar action on the part of foreign countries, inequalities and friction have invariably ensued from attempts to negotiate reciprocity agreements. In Europe the practice of negotiating bilateral customs agreements on the basis of mutual concessions has been much more extensively followed than in the United States, and on the whole the results have been somewhat more satisfactory. The primary objective of such negotiations, however, has frequently been defeated by the tendency of many governments to increase tariffs for bargaining purposes, which probably has resulted in the raising of the whole international level of tariffs.[67]

On the other hand, if the negotiations for reciprocal agreements were carried on in line with a predetermined policy it might be possible to dovetail the concessions made with the general tariff revision discussed above. Many of the limitations of this method might be avoided through executive agreements, under broadly limited authorization by Congress.[67a] Recognizing that such action must depend on much more adequate information than was available at the time, Senator Costigan introduced a resolution, which was passed by the Senate on January 28, requesting the Tariff Commission to furnish specified information that could "provide a foundation for a comprehensive survey of some of the major tariff-bargaining problems which are likely to confront the next administration."[68] This resolution is of considerable importance, for it should go far in removing the tariff from the field of guess-work and prejudice, and thereby assist in the formation of an intelligent tariff policy.

The value of reciprocity negotiations is closely tied, however, with the problem of the most-favored-nation clause. Until 1922 the United States followed a conditional most-favored-nation policy which permitted this country to make reciprocal agreements without extending to other nations the concessions which it granted in return for advantages given to American trade. Since this policy appeared to lead inevitably to discriminations and misunderstanding, it was abandoned by the State Department following the Tariff Act of 1922 for the unconditional form of the most-favored-nation agreement, whereby each party to a treaty guarantees to extend to each other any favor or concession granted to a third state.[69]

In view of the fact that since 1922 the United States has followed the policy of making no concessions to individual nations, only twenty-seven unconditional most-

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64. Congress repealed all bargaining provisions of former tariff acts in the Fordney-McCumber Act of 1922. There is no legislation at present authorizing the Executive to enter into negotiations with foreign countries for the purposes of securing special concessions to American trade.

65. U. S. Tariff Commission, *Reciprocity and Commercial Treaties* (Washington, Government Printing Office, 1919), p. 9 *et seq.*

66. Prior to 1890 seven reciprocity treaties were negotiated of which only two, that with Canada in 1854 and Hawaii in 1875, became operative. As the result of the Tariff Act of 1890, agreements of a more generalized nature were reached with 10 countries, but these were terminated by the Tariff Act of 1894. Under the act of 1897, treaties were negotiated with Great Britain (for certain colonies), France, Denmark (for the Danish West Indies), Nicaragua, Ecuador and Argentina, but these were never ratified. More restricted agreements were concluded with 9 countries, which were terminated in 1909. Special arrangements also have existed with Cuba and Brazil. For details, cf. U. S. Tariff Commission, *Reciprocity and Commercial Treaties*, cited.

67. Cf. statement of Professor Cassel, Sub-Committee on Customs Tariffs and Commercial Treaties, World Economic Conference, *Report of the Proceedings of the World Economic Conference* (Geneva, League of Nations, 1927), Vol. II, p. 76.

67a. In line with this suggestion it is definitely reported that President Roosevelt will seek authorization to change existing duties by not more than 50 per cent in return for reciprocal concessions, such changes to be subject, however, to veto by Congress. (*New York Times*, March 23, 1933.)

68. The Senate resolution asks for the following information:
1. Tariff classifications of imports that were substantial in 1920 or 1929 but which have since decreased substantially.
2. Dutiable articles which in 1927, 1929 or 1931 were imported in quantities less than 5 per cent of domestic production.
3. Articles on which the tariff rates exceed 50 per cent *ad valorem*, including consideration of the fall of prices in recent years in respect to the *ad valorem* equivalent of specific and compound duties, together with comparison of quantities and values imported as compared with domestic production, with special lists for agricultural goods.
4. Dutiable articles, the import of which have increased in value since 1929 with details.
5. Statistics regarding exports which have decreased in quantity or value since 1929.
6. The extent of exports of capital from the United States to foreign countries to build or buy factories, and the number of employees in such factories.
7. The range and variety of production costs in the United States and competing foreign countries for each industry investigated since 1920.
8. Grades and values of articles produced in the United States, which possessed special advantages causing them to be exported in substantial quantities, together with a statement regarding the nature of such advantages.
9. The value and quantity of imports each year from 1929 to 1932 of dutiable articles non-competitive with American products in which the country of origin possesses some special advantage of production.
10. The extent to which most-favored-nation-clauses, conditional and unconditional, may affect tariff bargaining with foreign nations.
11. General advice regarding the ways and means of tariff bargaining which may appear relevant for "most advantageously promoting expanded trade between the United States and foreign countries, with the purpose of increasing employment in the United States, and markets abroad for the products of farms and factories of the United States." *Congressional Record*, 72nd Congress, 2nd Session, Vol. 76, No. 30, January 13, 1933.

69. Cf. U. S. Tariff Commission, *Dictionary of Tariff Information* (Washington, Government Printing Office, 1924), p. 489-90.

70. The unconditional most-favored-nation clause has been included in treaties with Austria, China, Estonia, Germany, Honduras, Hungary, Latvia, Norway, El Salvador and Turkey, and in executive agreements with Albania, Brazil, Bulgaria, Chile, Czechoslovakia, the Dominican Republic, Guatemala, Greece, Finland, Lithuania, Nicaragua, Rumania, Persia, Poland and Spain, and temporary agreements with Haiti and Egypt. Most of the treaties require 12 months' notice before termination, while the agreements can be abrogated upon a month's notice.

favored-nation treaties or agreements have been concluded.[70] Some question has therefore arisen whether, upon a change of policy, these nations should reap the benefit of all tariff reductions granted to other countries in return for definite concessions. The consensus of opinion among tariff experts appears to favor the continued rigid application of the unconditional most-favored-nation principle by the United States on the ground that it is the only means by which a genuine reduction of duties can be accomplished and a consistent tariff policy maintained.[70a] Any other policy would be extremely complex to administer, and would probably lead to reprisals. Certain exceptions may have to be made to permit regional and economic groupings,[71] such as the proposed Danubian Union,[71a] but it is essential to avoid the bargaining spirit and to recognize that under present conditions the United States has as much to gain from the reduction of its tariffs as the countries with which it is negotiating. The principle upon which most bargaining is based—the expansion of the export market—would be of doubtful benefit to this country, moreover, unless even more substantial concessions were made to foreign nations. Mere reciprocity would be of little value in aiding debtor countries to meet their obligations to the United States. While many experts are frankly skeptical regarding the possibility of tariff reduction through bilateral negotiations, viewing it as a cumbersome means at best, most of them feel that it is worthy of a further trial, providing the most-favored-nation treatment is generally applied.

THE WORLD ECONOMIC CONFERENCE

It has already been suggested that the hope of decisive action for tariff reduction by the World Economic Conference depends very largely on American initiative. No other nation is in a position at the moment to exercise effective leadership. Debtor countries cannot reduce their trade barriers until the creditors have taken action. Great Britain is hampered by the Ottawa agreements, while France is faced with a heavy adverse balance of trade[73] and has shown no marked disposition to alter its policy.

Several lines of approach to the problem of tariff reduction are suggested in the Draft Agenda of the World Economic Conference.[74] It is first proposed that a "customs truce" be concluded pending definite action in regard to tariff reduction. Two methods of accomplishing this end have already been tried: (1) a definite commitment not to increase tariffs and not to introduce new protective duties either between the contracting nations or against other countries with which they have commercial treaties.[75] This formula was adopted in June 1932 by Belgium, Luxemburg, and the Netherlands. (2) A more elastic system, such as that employed in the Oslo Agreement between Belgium, the Netherlands and the Scandinavian countries, does not prohibit tariff increases, but merely gives to each of the contracting parties the right to denounce the agreement if another of the contracting parties, despite its professed intention to the contrary, raises its customs rates.[76] The Preparatory Commission points out, however, that "any truce would be more harmful than useful if it resulted in a stabilization of duties at the present level . . . and if it were not followed by a reduction of excessive tariffs."[77]

Actual tariff reduction, however, naturally presents more difficulties. The various nations will probably disagree markedly regarding the standard on which reduction is to be based. Three different approaches have been suggested: (1) reduction by percentages, (2) reduction to a uniform level—such as 20 per cent *ad valorem*—and (3) restoration of the levels existing at some previous date, e.g., 1913. Each of these methods, however, is open to serious objections as a sole standard of tariff revision, since the adjustments would not affect all countries alike. A flat percentage reduction,[78] for example, would probably leave the American tariff much higher than that of most other countries, while a uniform level that would be acceptable to our manufacturers would prob-

70a. Certain leading authorities dissent from this view, however. Cf. Taussig, "Changes in our Commercial Policy," *Foreign Affairs*, April 1933.

71. In the suggested agenda for the World Economic and Monetary Conference submitted by a special committee of the Council of the International Chamber of Commerce, recognition was given to the necessity of some exception to the most-favored-nation clause in multilateral agreements based on the following principles:

1. Such "agreements" should aim at facilitating the relations between the participating countries without any aggressive intention toward non-participating countries.

2. They should be open to the signature of any country which is ready to assume the obligations imposed on the participating countries.

3. Countries which fulfill these obligations without having definitely adhered to the pacts should be allowed to derive all the benefits granted to the participating states.

4. Such "agreements" should be carried on on a long-term basis. (*New York Times*, February 8, 1933.)

For possible application of this principle to the United States, cf. *New York Times*, March 24, 1933.

71a. Cf. "Foreign Tariffs and Commercial Policies," Department of Commerce, *Trade Information Bulletin*, Washington, 1933, p. 7.

73. Cf. J. C. de Wilde, "French Financial Policy," *Foreign Policy Reports*, Vol. VIII, No. 20, December 7, 1932, p. 235, 240-2; for 1932 trade figures, cf. *New York Times*, January 19, 1933.

74. Cf. *Draft Annotated Agenda*, Monetary and Economic Conference, cited, p. 27.

75. For full draft, cf. League of Nations, Economic Committee, *Report to the Council on the Work of the Thirtieth Session*, C.531.M.185.1929.II.

76. For full draft, cf. League of Nations, *Prelimnary Conference with a view to Concerted Economic Action*, C.203.M.-96.1930.II.

77. *Draft Annotated Agenda*, cited, p. 27-28.

78. Cf. Proposal of Senator Cordell Hull for a general 10 per cent reduction in world tariffs, *New York Times*, December 4, 1932.

ably be higher than the present tariffs of many foreign nations. The only solution of this difficulty, consequently, would seem to be a combination of two or more of these methods.[79] While there are undoubtedly serious obstacles to an agreement on a uniform mechanical formula, some authorities believe that these could be overcome if the United States were willing to make adequate concessions.

There is also need for the international conference to make a special study of some of the more technical problems in connection with administrative protection—special import restrictions, the quota system, government subsidies, exchange control, the problem of specific duties, and the relationship of the most-favored-nation clause to regional agreements.[80] But previous experience has shown that such detailed study is of little value unless the governments of the world are prepared to take definite action.

CONCLUSION

If the analysis that has been made thus far is correct, the moment would seem to be particularly auspicious for decisive action in the field of tariff reduction. Nothing is to be gained, however, by minimizing the difficulties with which the world is faced in its struggle for economic disarmament. In addition to the dead weight of tradition, conservatism and ignorance, there are intrenched private interests which are bound to resist any fundamental change. Some writers would have us believe that once a nation has embarked on the tariff road there is no turning back, and that tariffs represent a normal and inevitable development in our economic life which is closely interrelated with the growth of monopolies and large combinations within the state.[81] It cannot be denied that the tariff system creates privileged groups which will actively resist all attempts at reduction of duties. While it is theoretically possible to utilize the power of tariff-making as an instrument for national economic planning, experience has shown that national policy frequently, if not invariably, has been subordinated to group interests. Moreover, liberalization of tariffs by itself will not solve the paramount problem of increasing purchasing power, and may even aggravate the present maldistribution of wealth. Since under lower tariffs the increased influx of foreign goods into this country would represent largely the payment of interest and amortization on foreign investments, which would go to the wealthier portions of the community, some authorities contend that there would not be an increase of spending equal to the increase in goods and that there would consequently be a lessening in the demand for American goods.[82] While the tendency to increased unemployment might be counterbalanced by carefully planned expansion of government expenditures financed by an increase of income tax on the higher brackets, there is no assurance that in practice such a program would be carried out.

Notwithstanding these very real obstacles, the United States, as a creditor, must choose between the loss of 11 billion dollars of foreign government obligations, together with 17 billions of private investments,[84] and the temporary inconveniences of tariff revision. Moreover, there are very substantial grounds for believing that even at this late date a levelling of trade barriers would contribute substantially to world recovery. There is probably no other point at which the world-wide deflationary cycle can be effectively attacked by governmental action. International recovery is dependent upon a number of conditions, all closely interrelated. Perhaps the most immediately essential of these is the restoration of international capital movements. With large amounts of idle capital awaiting productive opportunities, there is every reason to believe that the news of a substantial tariff reduction would encourage investment and result in a prompt increase in the prices of basic raw materials.[85] If this process could be started, the remaining problems would be considerably mitigated. If the volume of foreign trade could be increased, the burden of debts would no longer be intolerable and the pressure on prices from this quarter would be lifted. Under such circumstances, monetary stability would be comparatively easy to obtain. Viewed from this angle, it will be seen that the struggle against the excesses of economic nationalism both in the United States and abroad, while exceedingly difficult, is perhaps the most crucial phase of the war against the unremitting pressure of the world depression.

79. *Draft Annotated Agenda,* cited, p. 28.

80. For list of detailed suggestions, cf. report of the special committee of the Council of the International Chamber of Commerce, *New York Times,* February 8, 1933.

81. Cf. John Strachey, *The Coming Struggle for Power* (New York, Covici Friede, 1933), p. 68-76.

82. Cf. Lawrence Dennis, *Is Capitalism Doomed?* (New York, Harpers, 1932), p. 291-294.

84. Winkler, "American Foreign Investments in 1931," cited.

85. Cf. B. M. Anderson, *Chase Economic Bulletin,* November 17, 1932, p. 12-13.